

STATEMENT FOR THE RECORD
SUBMITTED TO THE HOUSE WAYS & MEANS HEALTH SUBCOMMITTEE

ON

PREMIUM SUPPORT AND ITS IMPACT ON MEDICARE BENEFICIARIES

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The Alliance for Retired Americans submits this statement to the House Ways & Means Subcommittee on Health Care to express our strong opposition to the premium support provision included in this year's House Budget Resolution, H. Con. Res. 112. Premium support would end Medicare as we know it for Medicare beneficiaries, removing the guaranteed benefits that have provided health security for our nation's retirees and the disabled since 1965.

Founded in 2001, the Alliance is a grassroots organization representing more than 4 million retirees and seniors nationwide. Headquartered in Washington, D.C., the Alliance and its 32 state chapters works to advance public policy that strengthens the health and economic security of older Americans by teaching seniors how to make a difference through activism.

Premium support, as proposed under the House budget, will be devastating for many seniors. The plan ends the guaranteed benefits under Medicare, which assures beneficiaries that any and all services that are medically-necessary will be covered. Under premium support, beginning in 2023, Medicare beneficiaries would receive a fixed stipend to be used to purchase insurance through a Medicare exchange. Beneficiaries could choose between private plans or traditional Medicare. The problem with this proposal is that the capped payment would not keep up with medical inflation. Instead, the fixed stipend would be indexed to the gross domestic product (GDP) plus one percent – a calculation that does not adequately account for rising medical costs. Over time, as medical costs continue to rise, the capped stipend would be insufficient to cover the premiums, requiring seniors and the disabled to spend more and more money out-of-pocket to get the same care they currently receive under traditional Medicare. While higher income beneficiaries may be able to afford the higher premiums or increased out-of-pocket costs, most Medicare beneficiaries would not. This will produce a two-tiered system of care, with the wealthy having access to all the latest technology and treatment, while the rest of the population goes without. Contrary to the image that seniors are well off, half of the people on Medicare have incomes below \$22,000 a year. To make matter worse, Medicare beneficiaries already spend 15% of their income on health care costs, which is three times more than the rest of the population. The added out-of-pocket costs under the Ryan Republican budget will force many Medicare beneficiaries to be underinsured and, in many instances, forgo needed medical treatment.

Furthermore, premium support may very well be the demise of the Medicare program. Proponents argue that premium support allows Medicare beneficiaries to stay on traditional Medicare. While this may be true initially, it is uncertain whether that will hold true in the future. Based on the experience of Medicare Advantage plans, one can expect that private insurers under premium support will likely cherry pick the healthiest patients leaving Medicare with sicker and more chronically ill individuals. This will

undoubtedly increase costs for those under traditional Medicare. Medicare has historically been more efficient than private insurance, in part due to its enormous risk pool. However, should Medicare become saddled with sicker patients, its premiums will rise, causing even more of the healthy beneficiaries to abandon the program. The continuous rise in premiums and subsequent drop in enrollment could undermine the entire program as increased costs make the program unaffordable and unsustainable.

Finally, premium support does nothing to address the true drivers of rising health care costs. Instead of implementing reforms that will bend the cost curve, premium support, as adopted in the Ryan Republican budget, simply shifts the costs on to beneficiaries. If Congress is serious about reducing health costs, it should allow the new cost-savings initiatives in the Affordable Care Act to be implemented. These pilot programs are well thought out and have been successful in reducing costs while improving the overall health of the population. Furthermore, the new initiatives do not reduce health expenditures by transferring the costs on to beneficiaries.

In addition to premium support, there are various other ideas that have been proposed to help reduce the cost of health care, including raising the Medicare eligibility age, instituting a single Medicare deductible and charging a surcharge on Medigap policies. Like premium support, these policies are short-sighted and not in the best interest of Medicare beneficiaries. They seek to reduce health costs by shifting it to those who can least afford it. As Congress deliberates on ways to reduce health costs, members should keep the need of seniors and the disabled first and foremost on their minds and not make radical, harmful changes such as those in the Ryan Republican budget.